DOCUMENT RESUME

ED 316 925 EA 021 639

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TITLE	Effects of the Oil Spill on Alaskan Education.
PUB DATE	Nov 89
NOTE	13p.; Paper presented at the Annual Meeting of the National Organization on the Legal Problems of Education (35th, San Francisco, CA, November 16-18, 1989).
PUB TYPE	Viewpoints (120) -- Speeches/Conference Papers (150)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	*Educational Environment; *Educational Finance; Elementary Secondary Education; *Environmental Influences; *Financial Problems; State School District Relationship
IDENTIFIERS	*Alaska; Alaskan Pipeline; *Oil Spills; Pollutants

ABSTRACT

Oil-industry-produced revenues, help finance Alaskan state and local governmental services including education. Capital losses incurred by the Exxon Corporation and by commerical fisheries as a consequence of the Exxon Valdez oil spill caused an economic recession, the result being diminished financing for a number of governmental programs and services including Alaskan education. Legislation known as the "spill bills," statutory proposals for curtailments in educational services that became law, were designed to handle the recession and the concomitant diffusion of state monies. (JAM)

EFFECTS OF THE OIL SPILL ON ALASKAN EDUCATION

by Lawrence Lee Oldaker

Introduction

Russian-American Alaska has been a cyclic scene of repeated discovery, development, and abandonment. Wealth seekers from the world's population centers have been instrumental in creating a pervasive colonial attitude toward the extraction of abundant natural resources found within the state's seemingly limitless land mass. Framers of Alaskan statehood in the 1950s perpetuated this economic colonialism by promoting the development of renewable and non-renewable natural resources. Specifically, early legislators and administrators envisioned growth through private sector profits from harvesting evergreen forest consummable goods, locating and refining oil and natural gas, harnessing rivers for hydroelectric power use and sales, and touting frontier beauty to adventurers and tourists.[1]

Throughout the past two hundred years, the "Great Land" has appealed to fortune-seeking fur sealers, whalers, gold panners, militiamen, and wildcatters in pursuit of oil and natural gas. Agriculture, fishing, and forest products drew many to the milder climates of southcentral and panhandle Alaska. After numerous resource developers calculated the remaining natural resources against unfavorable market conditions, their abandonment of played-out, previously frenzied commercial activities created a corresponding bust for the preceeding boom. Economic diffusion waves in Alaska's western and northern regions (Figure 1) have had a pronounced effect on the people and their patterns of settlement. Awareness of drastic fluctuations in past economic missions provides a useful perspective in viewing the attitudes related to present day land-use and economic development policies.

[1] For an excellent and most comprehensive economic analysis of Alaska's transition from status as a U.S. Territory to Statehood, see George W. Rogers, The Future of Alaska: Economic Consequences of Statehood (Baltimore, Maryland: The Johns Hopkins University Press), 1962, 311pp.

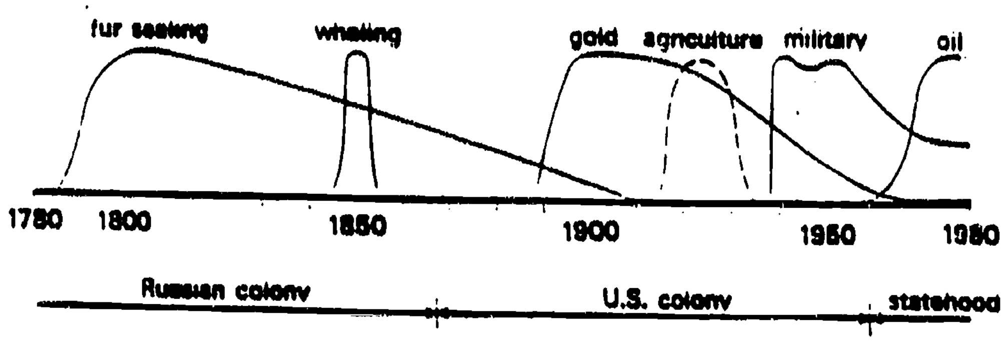

Figure 1. Main economic diffusion waves affecting northern and western Alaska.[2]

Contemporary Petrostress in Alaska.

Dependence on a single source of private sector wealth creates tensions among economic, political, and social interests. Since the production of oil began in the fall of 1958, Alaskans have shown an increasing reliance on revenues from the industry to provide public sector services, especially scholastic and university instruction. In comparison with other major petroleum-producting states (such as California, Louisiana, Texas, and Wyoming), about eighty-five percent of Alaska state revenues are funded from royalties and taxes on North Slope crude oil. Any significant series of events affecting the market price of petroleum produces fiscal shock waves throughout the state. Current uncertain economic and political stability in the Organisation of Petroleum Exporting Countries (O.P.E.C.), the Middle East in general, and Panama add additional pressures on a global energy market which has recently witnessed varying degrees of scarcity and abundance.

Years of colonial prosperity and growth followed the completion of the Prudhoe Bay-to-Valdez Trans-Alaska Pipeline System (TAPS). With the new wealth generated by pipeline activity, state legislators enthusiastically endorsed new programs and expansion of existing services. It was a time blessed with industrial innocence and wonder. Alaska's five-year Camelot was brought to an end with the decline in the price of oil from $33.67 per barrel in 1982 to a low of $15.42 for each unit in 1989. This fifty-five percent drop caused a forty-eight percent reduction in legislative appropriations over a period of five years. The most drastic budgetary cuts occurred in 1986.

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2 Sugden, David, Arctic and Antarctic (Totowa, New Jersey: Barnes & Noble Books), 1982, p.331.

This decline in oil industry-produced revenues to operate governmental services created friction within statewide organizations and among local political subdivisions. A review of Alaska court action was presented at last year's National Organization on Legal Problems of Education (N.O.L.P.E.) Convention in Washington, D.C. Featured judicial decisions reflected on (1) the questioned ability of a borough government to assess oil and gas properties at a higher rate than other personal property, (2) a school board's attempt to void an existing labor relations agreements through bankruptcy proceedings, and (3) a challenge to the university system of higher education over a reorganization plan which would merge non-union and union instructors into a single non-bargaining system [3]

The Prince William Sound Oil Spill.

Earlier this year, a single and highly dramatic event furthered apprehensions about the state's excessive reliance on petroleum production activities. Late in the evening of March 23rd, the very large crude oil carrier *Exxon Valdez* under the command of Captain Joseph J. Hazelwood left the Port of Valdez for Long Beach, California. Shortly after midnight on Good Friday, March 24, the heavily-laden tanker ran aground on Bligh Reef some twenty-five miles south of the pipeline terminus. The accidental grounding discharged 258 thousand barrels (11.4 million gallons) of oil into the waters of Prince William Sound. This incident was the largest spill from a single vessel in the U.S. and the most expensive commercial accident in history, costing to date over two billion dollars. It also marked Alaska's fall from industrial innocence. Stunned officials in the state governmental infrastructure worked with Exxon and the U.S. Coast Guard in an attempt to contain the environmentally destructive oil slick, recover the discharged cargo, and protect area shorelines and fish habitats. At last count, more than 2,600 square miles of the ocean's surface had been fouled by the accident. This area of Alaskan coastal waters (Figure 2) was observed on August 10 to contain sheens, tar balls, and mousse suspected to be from the *Exxon Valdez*. The companion graphic (Figure 3) is a visual representation of the oil spill superimposed on a map of the U.S. Eastern Seaboard.

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[3] Fossey, W. Richard, and Lawrence Lee Oldaker, "Inability to Pay Salaries Under Collective Bargaining Agreements--Legal Options for Financially Distressed School Districts" (Washington, D.C.: N.O.L.P.E. Convention), November 17, 1989; Lawrence Lee Oldaker, "Petrostress in the Alaska Political Economy," The Alaska Public Affairs Journal, Winter 1990, in press.

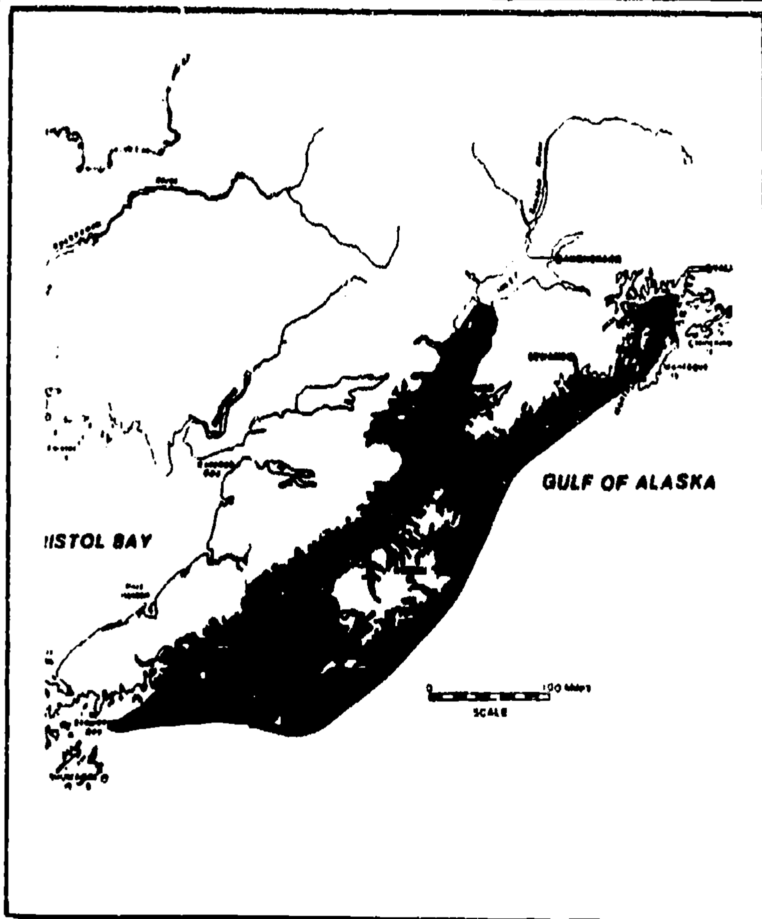

Figure 2. Area of Alaska affected by Prince William Sound Oil Spill[4]

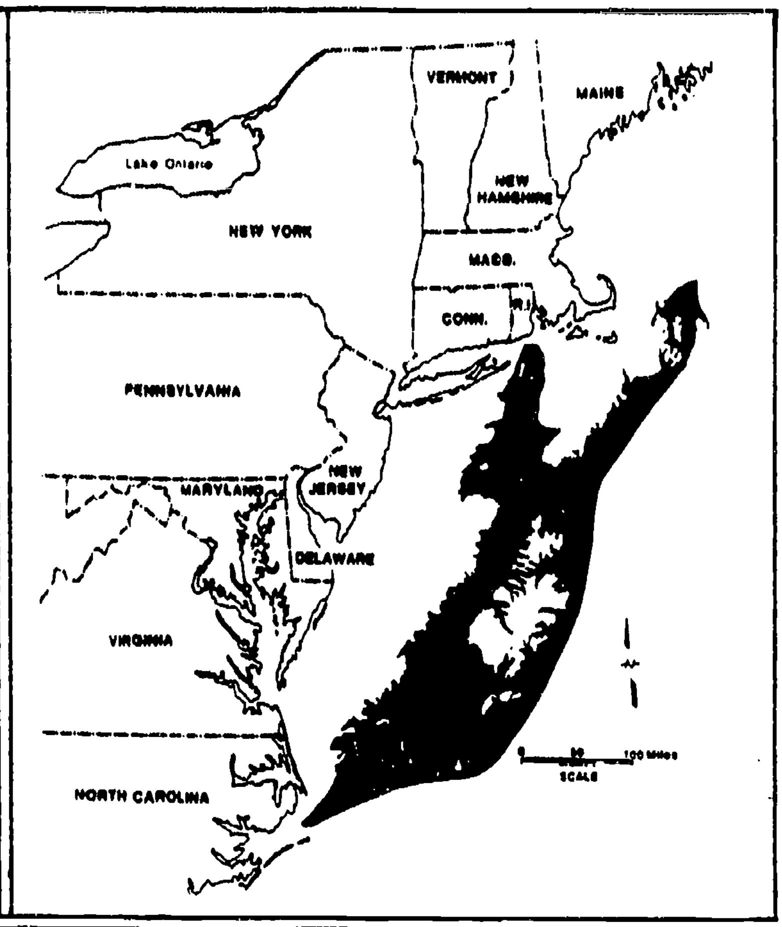

Figure 3. Area of Alaska Oil Spill compared to U.S. Eastern Seaboard[5]

Private and public sector forces mobilized to counter the marine accident. Exxon off-loaded the remaining crude oil from the *Exxon Valdez* to other vessels, refloated the stricken vessel, and performed emergency repairs to prepare the disabled tanker for towing to a San Diego dry dock. Over 10,000 workers were employed to contain and clean up the oil. While spill-related activities increased, restrictions placed on tanker movement into and out of Valdez caused a corresponding slowdown in pipeline production. The immediate impact of the spill on the State was a disruption in revenue from the loss of severance tax and royalty payments. The usual TAPS two million barrels per day flow was interrupted until April 5, a period of twelve days. This decreased oil flow created a monetary loss of $30 million for the State[6] and an undetermined financial loss in sales for the producers.

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4 "Special Oil Spill Issue," Alaska Fish & Game, July-August, 1989, p. 21.

5 Ibid., p. 22.

6 Departmental memorandum to Revenue Commissioner Malone, April 15, 1989.

The accident closed Prince William Sound commercial fisheries, a collective enterprise producing $91 million in 1988. As the oil slick spread to the southwest, the $126 million salmon fisheries in the Cook Inlet and the $94 million Kodiak Island areas were also curbed. The Kodiak Island industry was saved from total loss by good catches in bottomfish and shellfish not greatly affected by the spill.[7] Lost fishery, TAPS, and corporate revenues were said to have been offset by Exxon's expenditures for cleanup costs, estimated to be $1.28 billion through June. The petroleum giant will spend well over $2 billion on Prince William operations, excluding lawsuits.[8]

The State's allegation of harm from the accident and the perceived financial losses to fishery interests created a groundswell of litigation. Approximately 155 cases have been filed against Exxon, 110 in state courts and 45 in the federal judiciary. Approximately thirty-four percent were class action suits (17 state/36 federal). Ninety-seven claims and counterclaims were consolidated under a single superior court case number. Cover story articles of the spill appeared in issues of U.S. News & World Report and Newsweek. Each described the chronology of events related to the *Exxon Valdez* incident, detailed cleanup efforts and costs, mentioned surfacing legal conflicts, and speculated over future developments.[9] The Wall Street Journal envisioned Exxon as a giant army stuck on Alaskan beaches in a mess nightmarishly difficult to fix, all in spite of the stunning costs.[10]

The Split Legislative Session.

As the tragic maritime drama unfolded, the legally mandated 120-day session of the 16th Alaska Legislature was in session. The term began on January 9 with a traditional mission of providing guidance to the state's operating agencies. At the onset there was cautious optimism about the economic outlook for the current year. Although oil sales were perilously close to the 1986 price level which plunged Alaska and other petroleum-

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7 "After the Big Spill," Juneau Empire, August 10, 1989, p.1,8.

8 "Oil Spill Cleanup Will Cost Exxon $2 Billion," Juneau Empire, September 11, 1989, p. 1,8.

9 "A Disaster That Wasn't," U.S. News & World Report, September 18, 1989, p. 60-69; "Alaska After Exxon," Newsweek, September 18, 1989, p. 50-62.

10 "Stuck in Alaska, Exxon's Army Scrubs Beaches, but Many Don't Stay Cleaned," The Wall Street Journal, July 27, 1989, p. A1,8.

producing states into major economic recessions, many felt that the chief revenue source would become stable and that further curtailment of essential services could be averted in crafting the 1990 budget. Scholastic and university programs appeared safe from the threatening specter of major spending and personnel cuts. This theme was abruptly altered with the Prince William accident. Instantly, the legislative session developed a distinct "second session" climate of concern for dealing with the spill AND bringing about stability to governmental spending. In the remaining days prior to adjournment, lawmakers in both houses introduced sixty-four bills related to the *Exxon Valdez* incident. Eleven of these "spill bills" were signed into law by the governor.

The following statutory proposals were introduced and received consideration by the legislators in the session. Each measure was traced through the legislative mood swing created by the March disaster.

1. Retirement Incentive. One measure to protect instructional services and lessen operating costs was the successful reapplication of a retirement incentive program first implemented in 1986-87. The previous program created savings in school districts of $31.3 million, $4.8 million in municipalities, $14.5 million at the state government level, and $22.3 million in the university system. The plan saved $72.8 million in five years. Under the act, employees within three years of retirement were encouraged to leave their positions, allowing the most recently hired to remain on-board. Incentive to accept early retirement was enhanced by a formula dividing grace period actuarial costs between governing boards and employees. Each board would certify an employee's eligibility if the early retirement produced a budgetary savings over three years. Further inducement focused on a graceful exit from the profession, avoiding the stress of facing another reduction in force. Replacing experienced teachers with younger instructors was not considered to be a handicapping factor.

Approximately twenty-seven percent of scholastic and forty-seven percent of university employees were declared eligible for the 1989 program. Estimates in savings over a three-year period ranged from $45 to $55 million. Renewed bi-partisan efforts rallied to support the measure after the spill. The primary sponsor prefiled 1990 legislation to promote greater participation and additional savings. If the amendment is approved, governing boards would be required to tabulate the perceived savings over a five-year period.

2. Binding arbitration. Prior to the legislative session, public school employees were subject to statutes enacted by the legislature (Compiled

School Laws of Alaska) and regulations of the State Department of Education (Alaska Education Regulations). Unresolved labor disputes in local school districts were limited to mediation and advisory arbitration, a marked difference from the procedures used in resolving similar issues in general government units. Most non-scholastic employees sought relief through binding arbitration, a limited right to strike followed by arbitration, or the right to strike. A Senate proposal would have brought finality to the collective bargaining process for certified and non-certificated school employees by affording them last-best-offer binding arbitration.

The bill moved actively through the legislative process early in the session. Later, strong opponents with fears of uncontrolled state spending stalled the measure and forged a compromise to change the theme from binding arbitration to the right to strike. This revision would bring educational personnel relations under the Public Employees Relations Act (PERA) with the state's general government workers. As the session ended, the new right to strike bill for teachers passed the Senate, generally considered to be luke-warm on the subject, and was returned to the House Finance Committee for consideration. At that time, it gained a rare, collective endorsement from Alaska's school board, administrative, and teacher associations. The new bill will face scrutiny in the lower house as the lawmakers reconvene in January.

3. Forward Funding for School Boards. In Alaska, school boards must submit an annual operating budget in the spring prior to legislative adjournment. This process is handicapped because lawmakers usually complete the large, cumbersome school spending plan too late to provide timely fiscal guidance for school district officials. To lessen the burden placed on local boards of education, a proposal requiring an April 7 commitment of state school construction and operating funds passed both houses. Late in the session after the spill, the governor vetoed the bill and critizised the requirement to allocate such a large percentage of the total state budget by the proposed date. Although many agreed with the post-spill action taken by the chief executive, others continued to seek ways to assist school board members and superintendents in preparing the yearly budget.

4. Permanent Educational Endowment Fund. The state constitution was amended in 1976 to create the Alaska Permanent Fund. Wealth from royalties and other income acquired in the production and sale of crude oil was placed in this special account. The Fund's principal was valued at $10 billion this year. Use of Fund income is decided by the people, through the

elected legislative representatives. The reality of decreased North Slope crude oil production motivated the governor to propose a permanent endowment fund for public elementary and secondary school programs and introduce legislation calling for voter approval to amend the state constitution. If successful, the amendment would direct forty percent of the yearly Permanent Fund interest to be set aside for the education account. Principal and interest in the Education Fund would mature until 2005 A.D. Then, in spite of dwindling oil revenues, an anticipated $700 million "floor" would be made available annually for education. The governor scheduled statewide appearances to gain public support for passage of the bill in the coming session.

5. Economic Limit Factor. The most significant revenue question considered by the Legislature was whether or not to change the economic limit factor (ELF) regulating oil and gas severance taxes. In March, prior to the *Exxon Valdez* incident, the House approved a tax increase on oil produced in the state's two largest fields, Prudhoe Bay and Kuparuk. Severance taxes for all other oil fields were reduced or remained intact. The Senate, on record as opposing the tax measure, was pressured by public outcry over the oil spill to follow action taken in the lower house. The ELF revision, passed retroactively to January 1, 1989, generated revenues which helped avert wholesale reductions in educational services. It also helped create a fiscal year surplus of$162.7 million, $63 million more than previously estimated.

A Cautious Closure.

Tensions surrounding unstable oil prices were heightened by the *Exxon Valdez* grounding. The accident strained the relationship between Alaskans and their major economic patron, the oil industry. A weight of public sentiment challenged plans by the major oil companies to explore for and develop new oil fields. The State of Alaska purchased the previously-leased Katchemak Bay sites, and a Congressional committee delayed hearings on leasing Arctic National Wildlife Refuge (ANWR) lands. Each move seemed to reflect a mood which questioned the operating and safety procedures of the major oil producers.

Barring the immediate development of new oil reserves within the state, the economic diffusion wave on petroleum production in Alaska has crested. Decreased North Slope crude oil production and increased pipeline tariffs (from repairs and *Exxon Valdez* legal fees) create a clear message of concern for those charting the state's future course. Notwithstanding the temporary reprieve in Alaska's troubled oil revenue picture, continued

reliance on the colonial exploration and development of petroleum products could generate another catastrophic economic collapse in the state.

The Prince William Sound oil spill was a personal, numbing tragedy for most of Alaska's citizens. Hopefully, the passage of the seasons will provide an opportunity for the Sound to repair ecologically. Limited visions on the effects of the spill, current gains in rising oil markets, and new severance revenues must give way to mature public policy planning for use of the state's vast per capita wealth. The Permanent Fund, created over a decade ago, coupled with diversified private sector productivity, could fashion a favorable socioeconomic climate for a "good life" on the Last Frontier. Residents, through their elected representatives, must seize this opportunity to develop good, long-range public fiscal policy that reflects intergenerational consistency, balance, and equity.

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Nota Bene: Dr. Oldaker is an Associate Professor of Education and Head of Graduate Programs in Educational Administration at the University of Alaska Southeast, Juneau. This paper was presented at the 35th Annual Convention, The National Organization on Legal Problems of Education, Fairmont Hotel, San Francisco, California, November 18, 1989.